The Free Market

"If you don't create a free market, a black market will emerge"

NEWSLETTER OF THE LITHUANIAN FREE MARKET INSTITUTE

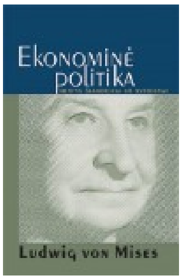
2006 NO. 3 (JULY – SEPTEMBER 2006)

CONTENTS:

NEWS

› LFMI commemorated the 125th birth anniversary of Ludwig von Mises

The year 2006 marks the 125th birth anniversary of Ludwig von Mises, one of the most prominent economists and philosophers of the 20th century. To commemorate this occasion, LFMI has organised a writing contest for students dedicated to Mises's works and has published a 2nd edition of Mises's *Economic Policy. Thoughts for Today and Tomorrow*.



To crown the events to dedicate Mises's anniversary, on 29th of September, the exact date of Mises' birth, LFMI held a seminar for students and the academia to present the ideas of Ludwig von Mises. During the event LFMI also launched the book *Economic Policy* and announced the winners of LFMI's writing contest *Freedom Studies*.

LFMI was honoured to host Prof. Hans Hermann Hoppe as the guest speaker of the event who spoke on the topic "Ludwig von Mises: Austrian Economist and Champion of Liberty." Mr. Hoppe is the author of eight books and more than one hundred articles in books, scholarly journals, and magazines of opinion. As an internationally prominent Austrian School economist and libertarian philosopher, he has lectured all over the world and his writings have been translated into twenty languages. Prof. Hoppe lectured in Lithuania several times, every time attracting enthusiastic audiences.

Writing contest "Freedom Studies"

To commemorate L. von Mises's 125th birthday anniversary, LFMI invited studying people to get acquainted more closely with Mises' works - *Liberty and Property*, *Capitalism*, *Socialism*, *Interventionism*, *Inflation*, *Foreign Investment*, *Politics and Ideas*, and *Bureaucracy* - and to write an essay which would be based on, or debate/develop/apply, the ideas reflected in one or several of these writings. All of these works by Mises have been published in Lithuanian and are posted on LFMI's website.

The winners of the contest were announced during the seminar on September 29, 2006 and awarded by cash prizes. The first prize was taken by Povilas Lastauskas, student of Vilnius University (essay on the situation on the higher education system in Lithuania). The second prize was won by Tomas Sinicki, student of Stockholm School of Economics in Riga, who is also the leader of a popular Lithuanian rock group *Gravity.* He submitted an assay "Critical Appraisal of Bachelor Taxation Plan." After the contest, Tomas Sinicki contributed to promoting LFMI's writing competition in youth media. Dalia Lašaitė, studying at the University of Lozana in Switzerland (HEC Lausanne) was awarded the third prize for her essay „Inflation in the 21st Century: Application of Ludwig von Mises Ideas." All these papers are posted on LFMI's website in Lithuanian.

LFMI's writing contest "Freedom Studies" was launched in 2004. It aims at enhancing the understanding of social and economic laws in the life of the society.

› LFMI: the euro launch needs government's efforts to trim budget expenditure, not raise taxes

On September 28, 2006 LFMI held a press conference to present its position and recommendations regarding the means to control inflation in light of the adoption of the euro.

According to LFMI, seeking to meet the Maastricht criteria, Lithuania should not impose artificial means of price regulation, levy new taxes or expand their base of taxation and advance increases in excise duties. Lithuania should regulate the level of inflation by the following means: to reduce the growth of budget expenditure and seek to balance the budget, to decrease the state debt, to improve conditions for competition, to liberalise the land market, and eliminate subsidies for housing loans.

These measures put forth by LFMI are targeted not only at curbing inflation but at the same time are healthy for long-term economic development.

LFMI pointed out that the major factor to push up the level of inflation in the future will be rising prices of fuel and heating, which do not depend on, and can hardly be affected by, any government-imposed anti-inflation tools. In addition, the basic cause of inflation is usually government-conducted emission of money. However, this is not the case in Lithuania (except the "imported" inflation of euro emission) as the currency board system operates in the country since 1994. Other sources of inflation are tax increases (e.g. excise duties), restrictions of competition (e.g. in the energy sector), state-stimulated consumption (e.g. subsidies for house loans and heating services).

LFMI highlighted that some factors that have an effect on price growth, such as climbing wages, are the signs of a sound economy and should not be viewed as harmful and therefore controlled.

LFMI is of the opinion that although an earlier introduction of the euro would be welcome, however, it does not deserve sacrificing economic stability and the factors that determine long-term economic growth. Lithuania, LFMI argues, should aim at controlling inflation taking into account its economic interests in the first place and apply only such measures that would contribute to long-term economic well-being. LFMI believes that the recently proposed tools to cushion price growth – an introduction of the real estate tax for residents, price control and advanced increases in excise duties – are inappropriate and should be abandoned altogether.

› LFMI proposes to enhance the system of fees and charges

Continuing its work on tax policy issues, LFMI has analysed the Law on Fees and Charges and submitted to the Parliament and the Government comments on draft amendments to this law. Fees and charges are mandatory payments by private companies for services provided by state and municipal institutions, agencies, offices or organisations, the cost of which must correspond to the cost of the service rendered.

LFMI concluded that the size of certain fees and charges evidently exceeds expenses that are needed for the service provision and that there is no system to ensuring the implementation of the current law. The Institute also pointed out that the size of fees and charge does not ensure the quality of services (products) received, while large payments reduce the profitability of businesses that have not even started activity.

LFMI thinks that all fees and charges collected by state institutions should be regulated by one law; the size of these payments must be calculated rather than fixed and must not exceed the size of the cost of the service. Policy analysts from LFMI also noted that the private sector is allowed to provide only a small number of services that are currently rendered by state and municipal institutions. The Institute believes that private capital would ensure efficient use of resources, market prices and optimal application of the labour force and technologies. Therefore, it is indispensable to envisage a consistent mechanism of handing over the provision of some services to the private sector.

› Economic freedom has increased in Lithuania but it still fails to outpace its neighbours

On July 7, 2006 the Lithuanian Free Market Institute disseminated a press release to present the results of the Economic Freedom of the World: 2006 Annual Report by the Fraser Institute, Canada. The latest study shows that the level of economic freedom in Lithuania has increased in 2004. According to the report, Lithuania ranks 40th (in 2003 it stood 45th) among 130 states, however, it still lags behind other Baltic countries - Estonia who fell from 9th to 12th place, and Latvia who climbed by two positions to 35th place. Lithuania moved from 93rd to the current 40th place during the period from 1995 through 2004, but remains the lowest ranking country among the Baltic States.

In 2004, as compared to 2003, Lithuania improved its score in two areas out of five – the size of government and regulation of credit, labour and business. However, in the remaining three areas (legal structure and security of property rights, access to sound money; and freedom of exchange with foreigners) Lithuania received slightly poorer scores.

Foreign aid does not have great impact in helping people in poor nations escape poverty

In new research published in this year's report economist William Easterly of New York University compares the impact of economic freedom and foreign aid on economic growth in the poorest nations. Easterly demonstrates that foreign aid has no positive impact on economic growth in the poorest nations. His research shows that economic freedom has a strong and positive impact on prosperity in general and on helping lift nations out of poverty.

"The demand for foreign aid is typically made in the absence of any empirical evidence that it leads to benefits for recipient nations and without asking whether there are better approaches to poverty reduction for the international community to support," said co-author of the report, James Gwartney, Professor of Economics at Florida State University. "What the research in this edition of Economic Freedom of the World suggests is that economic freedom, rather than foreign aid, does have a powerful positive impact and is a better approach."

"A key component of the success created by economic freedom is the ability to experiment, find economically successful areas of production, and prune those that do not succeed so that resources may be transferred to where they are most productive," said Fred McMahon, The Fraser Institute's director of trade and globalization studies.

International rankings

In this year's index, Hong Kong retains the highest rating for economic freedom, 8.7 out of 10, closely followed by Singapore at 8.5. New Zealand, Switzerland, and the United States tied for third with ratings of 8.2.

The United Kingdom and Ireland are tied for the 6th place. Canada receives a score of 8.0 and ranks 8th. Iceland and Luxembourg are tied for 9th place.

The rankings of other large economies are Germany, 17; Japan, 19; France, 24; Italy, 45; Mexico, 60; India, 53; China, 95; Brazil, 88; and Russia, 102.

Among those nations that have made substantial gains in economic freedom since 1985 are Hungary, Iceland, El Salvador, Zambia, Poland, Bolivia, Israel, Ghana, Uganda, Peru, and Nicaragua—though some of these began at very low levels or have experienced ups and downs over the period. Among those nations that have registered significant losses in economic freedom since 1985 are Myanmar, Venezuela, and Zimbabwe.

Most of the lowest-ranking nations are African, Latin American, or former communist states. Botswana's ranking of 35 is the best among continental sub-Saharan African nations. Chile, ranked at 20, has the best record in Latin America.

The bottom nations were the Central African Republic, Rwanda, Burundi, Algeria, Guinea-Bissau, Venezuela, Democratic Republic of Congo, Republic of Congo, Myanmar, and Zimbabwe. However, a number of other nations for which data are not available, such as North Korea and Cuba, may have even less economic freedom.

About the Economic Freedom Index

Economic Freedom of the World measures the degree to which the policies and institutions of countries are supportive of economic freedom.

The cornerstones of economic freedom are personal choice, voluntary exchange, freedom to compete, and security of privately owned property.

This is the 10th edition of *Economic Freedom of the World*. This year's publication ranks 130 nations for 2004, the most recent year for which data are available. The report also updates data in earlier reports in instances where data have been revised.

Thirty-eight components and sub-components are used to construct a summary index and to measure the degree of economic freedom in five areas: (1) size of government; (2) legal structure and protection of property rights; (3) access to sound money; (4) international exchange; and (5) regulation.

The annual report is published in conjunction with the Economic Freedom Network, a group of independent research and educational institutes in over 70 nations.

› LFMI dispelled the myths about globalization

On 14 September 2006 in Vilnius the Lithuanian Free Market Institute, in partnership with the British Embassy in Lithuania, organised a **conference "How can Lithuania Survive on a Global Market?**". The even focused on the impact of free trade and globalization on Lithuania and addressed the opportunities and challenges that globalisation posed on Lithuanian businesses acting on the global market.

LFMI was privileged to host **Mr. Philippe Legrain, a British economist, journalist and writer, as the distinguished guest speaker of the conference**. Mr. Legrain writes about globalisation and European issues. He was previously chief economist and director of policy for the pro-European pressure group, Britain in Europe, special adviser to WTO director-general Mike Moore, and trade and economics correspondent for The Economist. He has written for various newspapers and magazines, including The Guardian, The Independent, the Wall Street Journal Europe, the FT and the New Statesman. He is the author of Open World: The Truth about Globalisation and is currently writing his second book, on international migration. He is a major advocate of the euro and globalisation.

During the event LFMI presented a **research with a view to dispelling the fallacies and myths related to free trade and globalisation**. The conference was attended by Lithuanian politicians, high ranking government officials, experts, political scientists and media representatives.

The research and the conference were conducted within the framework of LFMI's project on globalisation and free trade, launched in June 2006 and supported the British Embassy in Lithuania. It aimed at evaluating what impact freer trade has had and continues to have on the Lithuanian economy. The project also targeted at debunking popular myths about globalisation and free trade.

› LFMI evaluates the agenda of the newly appointed government

On July 13, 2006 LFMI issued a press release presenting its evaluation of the programme of the 14th Government of the Republic of Lithuania. According to the Institute, the new programme, entitled "In the name of unity and wellbeing," envisages too few measures for creating well-being and is rather the agenda of wasting, not creating, welfare.

According to LFMI, the 14th Government continues the tradition to retain much leeway to do what they please because, for example, no commitment to abstain from imposing new taxes have been set among other obligations. LFMI also pointed that the Government has not distinguished, among the most acute economic problems, Lithuania's lagging competitiveness and diminishing investments, rampant and inefficient bureaucracies, overly meticulous and complicated regulation, inefficiency in running public sectors, and scandalous constrains in the land market.

LFMI voiced regrets that references to lowering taxes or crucial structural reforms are very vague and not concrete. For instance, a reduction of the personal income tax to 20 percent was listed with a phrase "if financial circumstances are favourable."

Policy analysts also highlighted that the new Government plans to retain the state's too active role in the market. In addition, the programme has been compiled with a view to distributing the welfare today, instead of proposing serious solutions to long-standing problems.

LFMI expressed a belief that the 14th Government would find ways to implement its agenda so that the welfare was created, not wasted.

› LFMI Advises on the 14th Government's Action Plan

LFMI analysed an official action plan for the implementation of the government's programme for 2004-2008 and submitted comments and proposals to the government. A package of policy proposals were submitted to the Prime Minister and all ministries concerned.

In his letter to Prime Minister Gediminas Kirkilas, LFMI's President Remigijus Šimašius wrote that although LFMI criticised the Government's agenda, it does not block the way for necessary solutions seeking to increase the Lithuania's competitiveness. LFMI's leader also expressed hope that the new administration headed by Gediminas Kirkilas would be able to implement indispensable actions that would enable a successful and uninterrupted creation of welfare in Lithuania.

LFMI also noted that despite outstanding economic results the Lithuanian economy must be given a push today so that it showed equally good results in the future as well. Among the primary measures recommended by LFMI are tax reduction, an overhaul and simplification of land market regulation, elimination of business barriers as well as conducting quality reforms in the healthcare and education systems. Only these tools can kick-start the economy and make Lithuania more attractive and assessable for investments, labour and creating welfare.

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COMMENTARY

Proposals to extend the working week to 60 hours have roused heated debates in the Lithuanian society and especially fierce opposition by trade unions. LFMI joined in the debate and voiced its arguments on the topic. The following commentary was posted on an internet portal, Alfa.lt, September 25, 2006.

A Longer Working Week is Not Just an Issue of Emotions

By Giedrius Kadziauskas, Senior Policy Analyst, LFMI

Employment regulation is an important element of economic policy. However, increasing the flexibility of the labour market is not such an easy and popular measure for attracting investments and promoting the country as compared to tax reduction or the establishment of free economic zones. Business is dependent on the activity of other individuals, for this reason abilities to buy and sell labour are an especially significant factor.

Labour is not a source of entertainment and it is crystal clear – it's much better to work 20 than 60 hours per week. For the bulk of employees, work is a source of income needed for living. No secret, longer work is tiresome; it has harmful effects on families and diminishes the quality of services and labour efficiency. Both employers and employees are well aware of these facts. Labour is an inevitable necessity rather than a universal wish or duty. Labour is backbreaking and strenuous; it invariably engenders stress and fear of losing it. But is it really indispensable to seek to shield people from this hardship and forbid them to work longer?

A whole lot of working people do not calculate their working hours – those working under business licenses or in the agricultural sector, managers and all those who earn extra money to their basic earnings by writing, tiling or tutoring biology. Ability to earn, in its turn, is encouraging, that is why Lithuanians working abroad are considered to be good, reliable and diligent workers.

The Lithuanian Industrialists Confederation has proposed to extend the working week to 60 hours. They suggested establishing this possibility not to entirely all working individuals but only to those who agree to it, come to terms with their employers and, by putting nine signatures, confess that they are not being exploited. Yet again, the issue of economic policy has been taken by a whirl of emotions and calculations. The trade unions argue that long working hours provoke emigration and that the central problem is wages; however, they countervailed the proposed possibility to earn more.

Emotional arguments bombarded by opponents of a longer working week miss their points, but people like them. Members of Parliament continue public relations campaigns, proposing to prohibit "all those 'maximas'∗ to work on national holidays"; however, such initiatives do not incorporate small shops. The goal of these campaigns is, actually, to please voters with anti-capitalist and 'anti-maxima' attitudes rather than to unite families during national holidays, even though official press releases profess the latter aspiration.

Proponents of the longer working week put figures on the table: Lithuanians (working in Lithuania) work the fewest hours, compared to all new EU member states; the number of national holidays in Lithuania is nearly the greatest in entire Europe; and unemployment, which provides more opportunities for those remaining in the country to find better jobs, is record low. However, the major concern remains – it is unclear if all parties of the labour market are granted a possibility to negotiate and have more confidence in each other just as in a number of other fields of life.

Constraints and protection against labour baffle common sense and are injurious to those whom they are

∗ *Maxima* is the biggest retail chain in the country which is the most popular target for anti-capitalist activists and official figures.

supposed to safeguard. An annual study on the business climate in the world conducted by the World Bank has a chapter on employment regulations which begins with a story about a girl from Burkina Faso. After graduation, she failed to find a job officially. The World Bank states that rigid employment regulation has been one of the factors behind that. In this country of Western Africa, just like in Lithuania, fixed-term contracts can be concluded only for seasonal works (and only to non-permanent jobs in Lithuania), women are not allowed to work more than eight hours (this restriction is valid for all workers in Lithuania), and working on weekends has been prohibited until 2004 (various initiatives to prohibit work on weekends and national holidays abound in Lithuania). Only 50,000 individuals out of Burkina Faso's population of 12 million are employed legally in the private sector.

The shadow economy accounts for about 40 percent of the labour market in Lithuania, and around 20 percent of workers are paid illegal "envelope" wages. The State Labour Inspectorate has proposed to seek a reduction in the informal sector by markedly increasing penalties for employers who hire workers illegally or do not meet the requirements for the division of work and leisure time, when such violations are detected repeatedly. As the problem in Burkina Faso is more pressing than in Lithuania, penalties there should be tripled and the number of labour inspectors should be increased ten times. Following this logic, problems ought to be solved. But in fact such policies are predicated on false assumptions.

For example, entire Ireland has 21 labour inspectors who investigate breaches of employment regulations, while Vilnius department of the State Labour Inspectorate alone employs 36 inspectors and specialists.

The single market of the European Union provides conditions to compare the business environment in individual countries. Various indicators and ratings can be used to measure the business climate, but the movement of the labour force demonstrates that Lithuanians choose longer working hours and higher wages in Great Britain. Perhaps it would be naïve to argue that after reforming employment regulation emigrants would flood back into Lithuania. However, the bureaucracy and inflexibility of labour regulation, threats of the labour inspectorate and collectively regulated employment will potentially dwarf the initiative to hire workers or to start a business in Lithuania for those people who have experienced milder regulation of labour relations in foreign countries.

In addition to that, it is easier to perform business activity abroad than in Lithuania. As a survey commissioned by the Ministry of Economy shows, as much as 152 institutions control business activity in Lithuania. According to the already mentioned study by the World Bank, the cost of firing an employee in Great Britain equals 8 percent of the monthly wage, while in Lithuania it is 28 percent. Capital which is required to start a new business in Lithuania accounts for 57 percent of annual personal income, while in Great Britain it is zero percent, i.e. minimum capital is not required.

The importance of employment regulation has been undervalued. Short-term victories when the government weighs the employer-employee scale to one side have long-term consequences. It affects people's motivation to start a business or to be hired; protection of workers impacts also those who do not participate in the labour market and send signals to the shrinking local and foreign investments. That is why, just because we don't have employees whose labour is impeded by employment regulation, because unemployment is non-existent and because there are no signs of calling for the right to choose how and what to work, we should not be deluded that a longer working week is an interest of the business alone.

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OPINION

The following article appeared on August 3, 2006 in a monthly column of the Lithuanian Free Market Institute entitled "What Would F. Bastiat Say?" in the leading Lithuanian weekly 'Veidas.' It touches upon a very sensitive notion which has been deeply ingrained in the minds of entrepreneurs, politicians and ordinary people...

Irresponsible Social Responsibility

By Remigijus Šimašius, President, LFMI

The number of entrepreneurs, constantly haunted by a feeling of guilt and a metaphysic debt to society, has been significantly on the rise in recent years. Intellectuals who foment this feeling and never miss a chance to fault business for minding only their profits is not lacking either. The slogan "business has to be socially responsible" has gathered momentum and has found expression in the agenda of the United Nations, the European Commission, individual countries and even the church. Business' social responsibility is demonstrated in cooperation with social partners – communities, trade unions, and local activists, and in dealing with environmental problems, paying employees a "decent" wage, sharing of earned profits, etc.

Some entrepreneurs, even without the precepts of social-responsibility slogans, give their profit to charity, some use these modern slogans for their marketing purposes, and some simply buy off themselves by paying to those demanding social responsibility as if to some racketeers. In such a manner, this drive for social responsibility devalues genuine philanthropy (when giving stems from aspiration to do good rather than from pressure) and undermines business efficiency. Business frequently fails to outstay the established standard of social responsibility and is forced to violate not just the standards of social responsibility but also the essentials of honesty. The most glaring example is the history of Enron, once seen as the benchmark for social responsibility. Such developments build preconditions for governments to step into the arena of businesses that are incapable to remain "sufficiently" socially responsible by themselves.

The line of thinking that honest profit-seeking is not a sufficient servitude to society reveals economic illiteracy. Afterall, earned profit is not something "taken away" from society but something "given" to it. It shows that a product offered by an entrepreneur is attractive to the consumer, in other words, it shows that investment has been directed to satisfy the basic needs of society. The price and the profit is the only landmark enabling diverting resources for the fulfilment of the most crucial, not petty needs of society. In such a way, social responsibility prevents entrepreneurs from continuing to serve society and leads them to service certain interests. In economic sense, the so-called social responsibility means unproductive costs or expenditures of consumption that has been thrust on entrepreneurs. As a result, capital decreases and gets more expensive, and labour becomes cheaper due to the diminished productivity and the bigger costs needed to acquire costlier capital.

Milton Friedman, the Nobel Prize winner, has once commented that perhaps no other provision would have such a disrupting effect on the foundations of a free society as obliging corporations to perform social duties, other than to earn as much money as possible for their shareholders. This is in essence destructive mindset. If entrepreneurs have other social duties than increasing their shareholders' profit, how can they know what those other duties are?

Sadly, the push for social responsibility is gaining ground. Business associations give their voice for social responsibility, and companies adopt declarations of social responsibility and support programmes proclaiming social responsibility. It is natural, of course, that activists make new demands. And as socially responsible behaviour is seen as the one which regards society's expectations, the ranks of those expressing society's voice are never empty. In Lithuania today, this phenomenon manifests itself in the form of various fighters against change - against new plants on virgin land, against new construction, against an attempt to close down a monster of the Soviet architecture, the cinema theatre Lietuva. Profit-seeking entrepreneurs are viewed as anti-society grabbers, and various activists, without scruple, attribute to themselves the label of the entire society's voice. No secrete whom vote-hunting politicians are willing to please in the first place…

The alleged needs of society are discovered from people shouting in the streets and insisting on other members of society to use their money in the way the nosiest loudmouth sees it fit. The real needs of society are uncovered by respectably spending one's earned money. Business' social responsibility is an invention which consumes but not creates welfare, which erodes but not strengthens society itself. Adam Smith may have overdone saying that he had never heard that somebody labouring for the common good had ever done anything good, but he was undoubtedly right about the idea that self-interest, under free-markets, brings the most benefit to society.

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COMMENTARY

The following article (presented here after updating) was posted on the most popular news portal Delfi.lt on August 11, 2006. It deals with the recent case of raising import duties on footwear from Asia and reveals how deleterious protectionist means can be.

Make Shoes, not Walls

By Žilvinas Šilėnas, Policy Analyst, LFMI

Raising import duties on footwear from China and Vietnam is an improper idea which is aimed at improving conditions for South European producers at the expense of consumers, sales people and more efficient producers from entire European Union (EU). The fact that proposals to apply import restrictions passed with a minimum support illustrates that it certainly does not meet the common interest of the EU.

Footwear from China and Vietnam usually targets a group of lower-income consumers. Besides, according to this new regulation, import duties are to be imposed on children's footwear as well. Consequently, increased import duties would push up the prices of cheaper footwear and would especially affect lower-income people. Consumers with higher income who buy footwear of an entirely different price level and country of origin would be affected less significantly. Of course, it would be absurd to say that some European producers seek to harm lower-income groups, but the consequences of increased import duties would be precisely the same as mentioned.

Shoes from China (as well as the bulk of other goods from China) consolidated a firm position on the EU market not as a result of dumping (if it is existed at all) but primarily due to the cheap Asian labour – this has been in part proved by the inefficiency of anti-dumping measures applied. Besides, a certain part of footwear imported from China constitutes the produce of European companies. By relocating their manufacturing activities to Asian countries, they use the competitive advantage of those countries - cheaper but less qualified labour force. To blame these businesses for being unpatriotic or greedy is tantamount to faulting someone for being stingy when he gets a broken zipper fixed at a local tailor's shop rather than at the High Street atelier. If there is anyone to be accused of being selfish, those are companies which seek forcing consumers to buy their products through government intervention rather than letting the consumer to choose the ratio of quality and price themselves.

Proponents of raising the tariff of import duty argue that this is, allegedly, not protectionism but protection against unfair competition. However, it should be admitted that anti-dumping measures are actually always taken with a view to shielding domestic producers from foreign competition – the cases against Lithuania initiated by European countries before EU accession are a perfect example of that. Moreover, the procedures of identifying dumping are frequently peculiar. For instance, in this case, in proving the fact of dumping, Brazil was selected for comparing domestic and export prices because it was decided that China and Vietnam did not meet the market economy criterion.

Does this imply that European, and Lithuanian, producers of footwear are doomed? Certainly, not. European producers which make expensive and high–quality goods are likely to retain their market share and even to expand it by exporting their goods to the very same Chinese market where demand for expensive products is expected to rise alongside the growing income. Germany, not China, is the world's largest exporter because Germany produces Mercedes-Benz cars, not the toy models of Mercedes-Benz. In the same way, those European producers of footwear who make timely investments in quality and brand name of their product, instead of trying to compete with Chinese rivals by sewing sling-backs for "4.99" will manage to compete successfully in the future.

Flexibility and speed are the advantages of Lithuanian producers in competing with the Asian counterparts. For this reason, the efforts of the government must be aimed not at futile means of protection but, rather, at creating preconditions for businesses to play on this flexibility. In this context, business regulation and restrictions, such as limiting work-time, certainly do not help in competing on the global market.

Opposition between eleven member states, mainly Northern ones, who opposed the plans to raise import duties, and other countries who voted for this proposal shows that there is not just a geographic difference but also a discrepancy in values. Embracing the opportunities presented by globalization stand on one side, and attempts at building great Chinese walls are on the other (while honoring informal voting alliances is another important aspect of this outcome). Lithuania has embraced the opportunities of globalization so far – and it should not have changed this mindset in this case either.

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The Free Market is published by the Lithuanian Free Market Institute – an independent non-profit organisation established in 1990 to advance the ideas of individual freedom and responsibility, free market and limited government. Our motto is

If you don't create a free market, a black market will emerge

The founders of LFMI are – Prof. Kęstutis Glaveckas, Nijolė Žambaitė, Dainius Pupkevičius, Petras Auštrevičius, Elena Leontjeva and Darius Mockus.

LFMI pursues its mission by conducting research on key economic policy issues, developing conceptual reform packages, submitting policy recommendations at the legislative and executive levels, drafting and evaluating legislation, and launching public campaigns. LFMI's activities also include sociological surveys, publications, conferences, workshops, and lectures.

LFMI receives financial support from individuals, corporations and foundations. Devoted to the principles of private ownership, LFMI accepts no funds form the Lithuanian government.

Lithuanian Free Market Institute
16A J.Jasinskio Str.
LT-01112 Vilnius, Lithuania
Tel. (370-5) 252 6255, (370-5) 252 6263
Fax (370-5) 252 6258
www.freema.org (English)
www.lrinka.lt (Lithuanian)